

State of Rhode Island Revenue Brief

FY 2006 Collections through July 2005

Beginning in FY 2004, the State of Rhode Island Budget Office presented a more comprehensive assessment of fiscal year-to-date revenue collections. In particular, the Revenue Brief now contains information on the Other General Revenue Sources. These sources include the Gas Tax Transfer, Other Miscellaneous Revenues, the Lottery Transfer, and the Unclaimed Property remittance.

Users of the report should be cautious when comparing year-to-date growth rates to the revised growth estimate for Other Miscellaneous Revenues and Unclaimed Property as the receipt of these revenues is not continuous. That is, for these two general revenue categories, payments are received at discrete points in time over the course of a fiscal year. Further complicating matters is the fact that the discrete pattern of receipts varies so that payments received do not necessarily occur at the same point in time in each fiscal year.

Total General Revenues

| | <u>Enacted Estimate</u> | <u>Actual YTD</u> | <u>Adjusted YTD</u> |
|--------------|-------------------------|-------------------|---------------------|
| Growth Rates | 4.4 % | 11.5 % | 8.8 % |

Fiscal Year 2006 total general revenues collected through July 2005 have increased by 11.5 percent as compared to July 2004 total general revenues collected in Fiscal Year 2005. For the fiscal year-to-date period ending July 2005, total general revenues were \$176.9 million as compared to \$158.7 million for the same period last year, an increase of \$18.2 million. Due to various causes, which are detailed below, adjustments need to be made to the fiscal year-to-date data for both FY 2005 and FY 2006.

Fiscal year-to-date 2006 personal income tax revenues are overstated by \$1.7 million, the result of two mispostings of cash collections that were credited as FY 2006 revenues but were actually FY 2005 revenues. Sales and use tax receipts were underreported by \$1.2 million due to a misposting of the prepaid sales tax on the retail sale of cigarettes as cigarette floor stock tax revenues. An act amending the sales and use tax to require prepayment of the sales tax on retail cigarette sales was passed by the General Assembly in June 2005. As a result, the cigarette tax revenues are correspondingly higher by \$1.2 million in FY 2006. Motor vehicle revenues were understated by \$2.3 million in July 2004 due to the posting of interstate trucking payments that are made to the forty-nine other states and Canada in July 2004 instead of June 2004. Motor vehicle revenues are again understated in Fiscal year-to-date 2006 by \$2.3 million due to the posting of interstate trucking payments in July 2005 rather than June 2005. The motor fuel tax is unusually high in July 2005 by \$974,102 as a result of the Division of Taxation filing a proof of claim in a bankruptcy proceeding in FY 2005.

In FY 2006, a number of unusual revenue receipts impacted departmental revenues. A large payment was made to the State as part of the Intermediate Hospital Settlement Payment program. Although large intermediate hospital settlement payments occurred sporadically over the course of Fiscal Year 2005, none were made in July 2004. Thus, FY 2006 departmental licenses and

fees are higher by \$1.3 million. Another unusually large fee was paid for banking enforcement in July 2005, in the amount of \$761,000, increasing year-to-date FY 2006 fines and penalties. An uncommonly low July 2005 collection of \$276,442 in maintenance fees for Board and Support for RI Veterans Home revenues helps to offset the \$2.1 million in above referenced revenue receipts for FY 2006.

Additionally, the gas tax transfer is distorted by \$738,408 prior to adjusting for the changes in the transfer amount allocated to the general fund. The transfer rate in July 2004 was \$0.02 of the \$0.30 per gallon gas tax. It was reduced to \$0.01 of the \$0.30 per gallon gas tax effective July 1, 2005 in the budget passed by the General Assembly on June 30, 2005. The \$0.01 differential has been allocated to the Rhode Island Public Transit Authority to shore up its finances.

Accounting for these revenue adjustments yields an adjusted rate of growth for the fiscal year-to-date period through July 2005 of 8.8 percent. It should be noted that the adjusted year-to-date growth rate is not necessarily indicative of the projected annual growth. The FY 2006 enacted growth estimate is an increase of 4.4 percent in total enacted FY 2006 general revenues over final enacted FY 2005 collections.

Taxes and Departmental Receipts

| | <u>Enacted Estimate</u> | <u>Actual YTD</u> | <u>Adjusted YTD</u> |
|--------------|-------------------------|-------------------|---------------------|
| Growth Rates | 4.1 % | 12.2 % | 9.2 % |

The State of Rhode Island Budget Office reports that Fiscal Year 2006 taxes and departmental receipts collected through July 2005 have increased by 12.2 percent as compared to FY 2005 collections for the comparable period one year ago. For the fiscal year-to-date period ending July 2005, total taxes and departmental receipts were \$176.5 million as compared to \$157.2 million for the same period last fiscal year, an increase of \$19.2 million. The misposting of personal income tax revenue and interstate trucking payments, the one-time “proof of claim” receipt for a bankruptcy proceeding in the motor fuel tax, the intermediate hospital rate settlement payment, unusually large banking enforcement fines, and irregular payments of maintenance fees for the Rhode Island Veterans Home board and support in FY 2006 decrease taxes and departmental receipts on an adjusted basis by \$2.2 million.

The misposted interstate trucking payments in July 2004 increase FY 2005 taxes and departmental receipts by \$2.3 million on an adjusted basis. Accounting for these modifications yields a FY 2006 adjusted growth rate in taxes and departmental receipts of 9.2 percent. The FY 2006 enacted growth estimate projects an increase of 4.1 percent in total taxes and departmental receipts over final enacted FY 2005 collections.

Other General Revenue Sources

| | <u>Enacted Estimate</u> | <u>Actual YTD</u> | <u>Adjusted YTD</u> |
|--------------|-------------------------|-------------------|---------------------|
| Growth Rates | 6.1 % | -69.2 % | -40.5 % |

FY 2006 other general revenue sources collected through July 2005 have decreased by 69.2 percent as compared to Fiscal Year 2005 collections through July of last year. For the fiscal year-to-date period ending July 2005, total other general sources were \$455,582 as compared to \$1.5 million for the same period last year, a decrease of about \$1.0 million. It is important to note that the General Assembly decreased the general fund's share of the \$0.30 per gallon gas tax to \$0.01 from \$0.02 beginning in July of FY 2006. Accounting for the decrease in the general fund's share of the gas tax transfer increases FY 2006 other general revenue sources by \$422,393 on an adjusted basis and yields adjusted FY 2006 growth for other general revenue sources of -40.5 percent. The enacted FY 2006 growth rate over final enacted FY 2005 collections for other general revenue sources projects an increase of 6.1 percent, with much of this increase due to higher projected lottery revenues.

Total Taxes

| | <u>Enacted Estimate</u> | <u>Actual YTD</u> | <u>Adjusted YTD</u> |
|--------------|-------------------------|-------------------|---------------------|
| Growth Rates | 3.9 % | 11.4 % | 9.4 % |

Total tax revenues for the fiscal year-to-date period through July 2005 were \$166.6 million, or 11.4 percent, more than the \$149.6 million in total taxes collected in FY 2005 through July 2004. In FY 2005, \$2.3 million in motor vehicle revenues were not reflected due to late interstate trucking payments. In FY 2006, personal income tax revenues are overstated by \$1.7 million, motor vehicle revenues are again understated by \$2.3 million and motor carrier fuel use revenues are higher by \$974,102 due to an unexpectedly large receipt. Adjusting for these postings and anomalies yields a growth rate of 9.4 percent. The enacted FY 2006 growth estimate for tax collections is 3.9 percent over final enacted FY 2005 tax collections.

Personal Income Taxes

| | <u>Enacted Estimate</u> | <u>Actual YTD</u> | <u>Adjusted YTD</u> |
|--------------|-------------------------|-------------------|---------------------|
| Growth Rates | 5.4 % | 9.4 % | 6.4 % |

Actual personal income tax collections for fiscal year-to-date 2006 through July 2005 are up \$5.3 million, or 9.4 percent, compared to the same period last fiscal year. Two FY 2005 personal income tax revenues were posted as FY 2006 revenues, totalling \$1.7 million in July 2005. The FY 2006 fiscal year-to-date adjusted growth rate of 6.4 percent exceeds the enacted FY 2006 growth rate of 5.4 percent over final enacted FY 2005 personal income tax collections.

FY 2006 year-to-date income tax refunds paid are greater by \$2.8 million, or 71.2 percent, compared to the same period in FY 2005. This large increase in refunds for FY 2006 versus FY 2005 is not of consequence at this time since, on average, over the last five fiscal years only 2.5 percent of total income tax refunds are paid in the first month of the fiscal year.

Like income tax refunds paid on a fiscal year-to-date basis, there has been a sizeable increase in final income tax payments received. Fiscal year-to-date final income tax payments are up \$1.0 million, or 56.7 percent, for the first month of FY 2006 as compared to final payments for the first month of FY 2005. This increase in final income tax payments is minor and of little consequence given that, on average, over the last five fiscal years only 1.4 percent of total final income tax payments are received in the first month of the fiscal year.

With respect to estimated income tax payments, year-to-date FY 2006 collections are down \$190,481 from FY 2005 collections at this time last year. This decrease translates into a fiscal year-to-date growth rate of -4.8 percent. Although the growth in estimated income tax payments is negative, its significance is minimal as, on average, over the last five fiscal years only 1.6 percent of total estimated income tax payments are made in July.

Finally, income tax withholding payments are up by \$5.5 million, or 10.0 percent, for the first month of FY 2006 when compared to the same period in FY 2005. This increase in income tax withholding payments is \$4.6 million more than the increase in income tax withholding payments that occurred in the first month of FY 2005 versus the same period of FY 2004. This improved growth in income tax withholding payments may be reflective of the strengthening job market that continued into July in Rhode Island. On average, over the past five fiscal years, 7.1 percent of income tax withholding payments are collected in the first month of the fiscal year.

Sales and Use Taxes

| | <u>Enacted Estimate</u> | <u>Actual YTD</u> | <u>Adjusted YTD</u> |
|--------------|-------------------------|-------------------|---------------------|
| Growth Rates | 4.6 % | 10.3 % | 12.0 % |

Sales and use tax collections in FY 2006 are up \$7.2 million, or 10.3 percent, relative to last fiscal year at this time. As always, the monthly sales tax receipts reported here reflect the prior month's retail sales activity. For both FY 2005 and FY 2006, the state's sales tax rate is 7.0 percent. On July 1, 2005 at 12:01 am, prepayment of the sales tax on retail cigarette sales was initiated. In July 2005, the prepaid sales tax receipts were erroneously posted as cigarette floor stock tax revenues. The total of this misposting was \$1.2 million. For excise taxes as a whole, there is no change but an adjustment is necessary to transfer these monies from Cigarettes to the Sales and Use tax for FY 2006. This transfer yields an adjusted growth rate for Sales and Use tax collections of 12.0 percent. According to the Division of Taxation, within the sales tax components, registry receipts were down 27.8 percent in the first month of FY 2006 when compared to same period last fiscal year. It should be noted that the automobile manufacturers' offer of "employee pricing" did not begin in force until July. Net sales tax receipts remitted directly to the Division of Taxation posted a gain of 10.0 percent during FY 2006's first month versus the first month of FY 2005. Providence Place Mall (PPM) sales tax receipts were up 11.5 percent through July of FY 2006 versus the same period in FY 2005.

General Business Taxes

| | <u>Enacted Estimate</u> | <u>Actual YTD</u> | <u>Adjusted YTD</u> |
|--------------|-------------------------|-------------------|---------------------|
| Growth Rates | 2.5 % | 9.6 % | 9.6 % |

Total general business taxes collected in the fiscal year-to-date July 2005 period were \$7.8 million, or \$687,153 more than the \$7.2 million collected for the same period in FY 2005. Year-to-date growth in FY 2006 is 9.6 percent. The revised estimated growth rate, as determined by the final enacted FY 2005 revenues and newly enacted FY 2006 revenues, is a modest 2.5 percent. FY 2006 year-to-date business corporations taxes are up \$1.6 million, or 62.9 percent, from last fiscal year at this time, a significant improvement over the FY 2005 July over FY 2004 July growth rate of -17.3 percent. In contrast, the health care provider tax is down 13.1 percent year-to-date.

In general, it is not possible at this time to begin to discern patterns in this year's other business tax collections. Most general business taxes are paid in March and June of the fiscal year, with 40.0 percent of total tax liability due in March and 60.0 percent of total tax liability due in June. The exception to this pattern is business corporations taxes and health care provider assessments. In the FY 2000 to FY 2005 period, an average of only 2.3 percent of total business corporations taxes were collected in the month of July. The health care provider assessment collections flow more evenly into the general fund over the course of the fiscal year.

Excise Taxes Other Than the Sales and Use Tax

| | <u>Enacted Estimate</u> | <u>Actual YTD</u> | <u>Adjusted YTD</u> |
|--------------|-------------------------|-------------------|---------------------|
| Growth Rates | -3.7 % | 24.8 % | 5.1 % |

Excise taxes other than sales and use taxes collected in the fiscal year-to-date July 2005 period totaled \$15.1 million or \$3.0 million more than the \$12.1 million collected for the same period in FY 2005. Motor vehicle receipts were reported low by \$2.3 million for July 2004 due to a delay in the posting of June 2004 interstate trucking payments by the Division of Motor Vehicles. Again, in FY 2006, June 2005 interstate trucking payments were made late in July 2005. Additionally, motor fuel receipts are higher by \$974,102 as the result of a "proof of claim" payment made to the State in a bankruptcy proceeding. Further, cigarette tax receipts are overstated by \$1.2 million, as previously noted, due to the misposting of the prepayment of the sales tax on the retail sale of cigarettes as cigarette floor stock tax rather than sales and use tax. Finally, the enacted 33.3 percent tax rate increase on smokeless tobacco products adds \$39,757 to cigarette tax revenues. Thus, what appears to be \$3.0 million more in revenue between fiscal year-to-date 2006 and 2005 collections, is actually a \$741,387 increase in revenue between the two periods. Adjusting for the above yields an adjusted growth rate of 5.1 percent in excise taxes other than the sales and use tax.

Rhode Island Cigarette Tax receipts are comprised of excise taxes collected on the sale of cigarettes, which also includes cigars and pipe tobacco, smokeless tobacco, and a one-time cigarette floor stock tax. Although no floor stock tax was received in July 2005 only \$1,883 of floor stock tax was received in July 2004, causing little disparity overall. There was no change

in the tax rate on cigarettes from FY 2005 to FY 2006, however the smokeless tobacco tax rate has increased as of July 1, 2005 from 30.0 percent to 40.0 percent of the wholesale cost of the smokeless product. After correcting for the prepaid sales taxes and adjusting for the smokeless tobacco tax rate increase of 10.0 percent, cigarette tax receipts for the first month of FY 2006 are up 9.5 percent compared to the same period a year ago. Both the actual rate of growth of 21.5 percent, and the adjusted rate of growth exceed the enacted FY 2006 rate of growth of -7.6 percent over final enacted FY 2005 cigarette tax collections.

Finally, the change in cigarette consumption is determined. First, the value of the floor stock tax is netted out of the data for FY 2005. Second, in FY 2005, due to the late passage of the budget, \$3.8 million of July cigarette taxes were back billed in August 2004. These tax payments must be added to the FY 2005 cigarette tax collections for the month of July. The end result is a decrease in Rhode Island cigarette consumption of 19.5 percent for the first month of FY 2006 versus the first month of FY 2005.

Other Taxes

| | <u>Enacted Estimate</u> | <u>Actual YTD</u> | <u>Adjusted YTD</u> |
|--------------|-------------------------|-------------------|---------------------|
| Growth Rates | 0.4 % | 24.9 % | 24.9 % |

Total other taxes collected in the first month of FY 2006 totaled \$3.8 million versus \$3.1 million in other taxes collected during the same period last fiscal year, an increase of \$762,433, or 24.9 percent. Inheritance tax collections totaled \$1.9 million in the first month of FY 2006, about 44.6 percent over the \$1.3 million collected in the first month of FY 2005. Given the fact that inheritance tax collections are volatile, it is not possible to make any valid comments about this revenue source. Racing and Athletics tax collections in the first month of FY 2006 are down 14.6 percent relative to the first month of FY 2005. Realty transfer taxes are up by 15.8 percent in the first month of FY 2006 versus the first month of FY 2005. This strong increase is likely reflective of Rhode Island's continued strong housing market.

Total Departmental Receipts

| | <u>Enacted Estimate</u> | <u>Actual YTD</u> | <u>Adjusted YTD</u> |
|--------------|-------------------------|-------------------|---------------------|
| Growth Rates | 6.1 % | 28.8 % | 5.3 % |

FY 2006 year-to-date departmental receipts total \$9.9 million, an increase of \$2.2 million over the amount that was collected last fiscal year at this time. Actual departmental receipts for FY 2006 are up 28.8 percent when compared to receipts collected for the same period a year ago. The enacted FY 2006 growth rate is 6.1 percent over enacted FY 2005 departmental receipt collections.

Within the total departmental receipt components, Licenses and Fees are up \$1.2 million, or 21.3 percent, in the first month of FY 2006 versus the first month of FY 2006. The majority of this difference is due to the fact that the State received \$1.3 million of intermediate hospital rate settlement payments in July 2005 but did not receive a payment in July 2004. Although comparably large hospital rate settlement payments were received in FY 2005, they were not

made in regular installments, resulting in an exaggerated growth rate for licenses and fees in the current fiscal year to date period. When modified for this irregular settlement receipt, the adjusted growth rate for licenses and fees is –1.3 percent.

Fines and Penalties are up \$787,439 in the first month of FY 2006 versus the first month of FY 2005. The increase in fines and penalties revenue is, in large part, due to the receipt of an unusually large banking enforcement fee of \$760,000. Adjusting for this anomaly yields a growth rate of 40.9 percent year-to-date in FY 2006 over year-to-date in FY 2005.

Sales and Services revenues are down \$265,732 between FY 2006's first month and the same period last fiscal year. In FY 2005, maintenance fees for May were paid in June to the State for RI Veterans Home board and support and were received in July. In FY 2006, these maintenance fees were paid early, arriving in June 2005 rather than in July 2005. The early payment of \$276,442 in FY 2006 accounts for most of the difference in sales and services revenues between the two fiscal years.

Miscellaneous Departmental Revenues are up \$439,610 in the first month of FY 2006 versus the first month of FY 2005. This gain is mainly due to irregularly made Emergency Housing Fund receipts and a large gain in hotel tax collections. The Emergency Housing Fund sometimes receives lump sum payments for multiple months. As a result, there are no cash receipts some months and there are large cash receipts in other months. This irregular schedule of receipts resulted in a large payment to the Fund in July 2005 and no payment in June 2005. In July 2005, a gain of \$273,979 was realized in hotel tax collections, reflecting robust returns in May 2005. As a result, FY 2006 year-to-date miscellaneous departmental revenues are up 47.5 percent.

Gas Tax Transfer

| | <u>Enacted Estimate</u> | <u>Actual YTD</u> | <u>Adjusted YTD</u> |
|--------------|-------------------------|-------------------|---------------------|
| Growth Rates | –49.4 % | –71.4 % | –42.8 % |

The Gas Tax Transfer is down 71.4 percent for FY 2006 when compared to FY 2005. This sharp decrease in the growth rate of the gas tax transfer is due to a decrease in the allocation of the State's \$0.30 per gallon motor fuel tax that is devoted to the general fund. In FY 2006 \$0.01 per gallon was allocated to the general fund compared to \$0.02 per gallon in FY 2005. Adjusting for this change yields an adjusted rate of growth of –42.8 percent, more in line with the enacted growth estimate of the gas tax transfer of –49.4 percent.

Other Miscellaneous Revenues

| | <u>Enacted Estimate</u> | <u>Actual YTD</u> | <u>Adjusted YTD</u> |
|--------------|-------------------------|-------------------|---------------------|
| Growth Rates | –29.7 % | n/a | n/a |

Other Miscellaneous Revenues total \$33,189 in the 2006 fiscal year-to-date period. The enacted 2006 growth rate is –29.7 percent over final enacted FY 2005 collections. The actual year-to-date growth in other miscellaneous revenues is not a surprise given the lack of consistency in typical receipt patterns.

Lottery Transfer

| | <u>Enacted ed Estimate</u> | <u>Actual YTD</u> | <u>Adjusted YTD</u> |
|--------------|----------------------------|-------------------|---------------------|
| Growth Rates | 13.1 % | n/a | n/a |

There is no lottery transfer in July of any fiscal year.

Rosemary Booth Gallogly, State Budget Officer
August 22, 2005

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

July 2005 Revenue Report

(Fiscal Year 2006)

| | FY 2005 YTD July | FY 2006 YTD July | Actual Growth | Revised Growth |
|--------------------------------------|-----------------------|-----------------------|------------------|-------------------|
| Personal Income Tax | \$ 56,924,068 | \$ 62,251,488 | 9.4% | 5.4% |
| General Business Taxes | | | | |
| Business Corporations* | \$ 2,563,896 | \$ 4,177,771 | 62.9% | -2.2% |
| Public Utilities Gross Earnings | \$ 263,331 | \$ 44,941 | -82.9% | 1.1% |
| Financial Institutions | \$ 23,287 | \$ 3,000 | -87.1% | -109.1% |
| Insurance Companies | \$ 155,091 | \$ 70,802 | -54.3% | 12.3% |
| Bank Deposits | \$ 67,141 | \$ - | - | 2.5% |
| Health Care Provider Assessment | \$ 4,086,238 | \$ 3,549,623 | -13.1% | 2.7% |
| Excise Taxes | | | | |
| Sales and Use | \$ 70,286,764 | \$ 77,524,355 | 10.3% | 4.6% |
| Motor Vehicle | \$ 603,475 | \$ 577,047 | -4.4% | 5.8% |
| Motor Fuel | \$ 6,546 | \$ 1,022,383 | 15518.4% | 0.0% |
| Cigarettes | \$ 10,397,574 | \$ 12,630,365 | 21.5% | -7.6% |
| Alcohol | \$ 1,131,595 | \$ 920,614 | -18.6% | 3.6% |
| Controlled Substances | \$ - | \$ - | - | - |
| Other Taxes | | | | |
| Inheritance and Gift | \$ 1,345,181 | \$ 1,944,672 | 44.6% | 0.0% |
| Racing and Athletics | \$ 353,171 | \$ 301,545 | -14.6% | -4.3% |
| Realty Transfer | \$ 1,359,533 | \$ 1,574,101 | 15.8% | 2.8% |
| TOTAL TAXES | \$ 149,566,891 | \$ 166,592,707 | 11.4% | 3.9% |
| Departmental Receipts | | | | |
| Licenses and Fees | \$ 5,864,330 | \$ 7,111,959 | 21.3% | |
| Fines and Penalties | \$ 67,092 | \$ 854,531 | 1173.7% | |
| Sales and Services | \$ 805,626 | \$ 539,894 | -33.0% | |
| Miscellaneous | \$ 925,475 | \$ 1,365,085 | 47.5% | |
| TOTAL DEPARTMENTAL RECEIPTS | \$ 7,662,523 | \$ 9,871,469 | 28.8% | 6.1% |
| TAXES AND DEPARTMENTALS | \$ 157,229,414 | \$ 176,464,176 | 12.2% | 4.1% |
| Other General Revenue Sources | | | | |
| Gas Tax Transfer | \$ 1,476,816 | \$ 422,393 | -71.4% | -49.4% |
| Other Miscellaneous Revenues | \$ - | \$ 33,189 | - | -29.7% |
| Lottery Transfer | \$ - | \$ - | - | 13.1% |
| Unclaimed Property | \$ - | \$ - | - | -35.4% |
| TOTAL OTHER SOURCES | \$ 1,476,816 | \$ 455,582 | -69.2% | 6.1% |
| TOTAL GENERAL REVENUES | \$ 158,706,230 | \$ 176,919,758 | 11.5% | 4.4% |

* Business Corporations tax includes both corporate income tax and franchise tax collections.